

# **Northville Public Schools**

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**Financial Report  
with Supplemental Information  
June 30, 2006**

# Northville Public Schools

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## Independent Auditor's Report

To the Board of Education  
Northville Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northville Public Schools (the "School District") as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Northville Public Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northville Public Schools as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Education  
Northville Public Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northville Public Schools' basic financial statements. The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not a required part of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. The required supplemental information and the other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2006 on our consideration of Northville Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Plante & Moran, PLLC*

July 28, 2006

# Northville Public Schools

## Management's Discussion and Analysis

This section of the 2006 annual financial report of Northville Public Schools (the "School District") presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

### Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Northville Public Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, Special Education Center Fund, and 2004 Building and Site Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

#### Basic Financial Statements

District-wide Financial Statements      Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

Other Supplemental Information

### ***Reporting the School District as a Whole - District-wide Financial Statements***

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

# Northville Public Schools

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## Management's Discussion and Analysis (Continued)

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, early childhood development, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

### ***Reporting the School District's Most Significant Funds - Fund Financial Statements***

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Services and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money, such as the 2004 bond issue, which funded construction for voter-approved capital projects. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliations on pages 13 and 15.

# Northville Public Schools

## Management's Discussion and Analysis (Continued)

### *The School District as Trustee - Reporting the School District's Fiduciary Responsibilities*

The School District is the trustee, or fiduciary, for its student activity funds and its trust funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### **The School District as a Whole**

The statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2006 and 2005:

TABLE I	Governmental Activities	
	2006	2005
	(in millions)	
<b>Assets</b>		
Current and other assets	\$ 31.2	\$ 49.7
Capital assets	110.2	98.6
Total assets	141.4	148.3
<b>Liabilities</b>		
Current liabilities	21.0	22.6
Long-term liabilities	102.4	109.7
Total liabilities	123.4	132.3
<b>Net Assets</b>		
Invested in property and equipment - Net of related debt	16.1	12.4
Restricted	1.2	1.4
Unrestricted	0.7	2.2
Total net assets	<u>\$ 18.0</u>	<u>\$ 16.0</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$18.0 million and \$16.0 million at June 30, 2006 and 2005, respectively. Capital assets, net of related debt totaling \$16.1 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$0.7 million) was unrestricted.

# Northville Public Schools

## Management's Discussion and Analysis (Continued)

The \$0.7 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2006 and 2005.

TABLE 2

TABLE 2	Governmental Activities	
	2006	2005
	(in millions)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 4.6	\$ 4.5
Operating grants	17.1	11.5
General revenue:		
Property taxes	20.4	19.6
State foundation allowance	46.3	46.6
Other	1.2	1.3
Total revenue	89.6	83.5
<b>Functions/Program Expenses</b>		
Instruction	47.0	46.5
Support services	30.1	29.0
Community services	2.1	2.2
Food services	2.5	2.3
Athletics	0.8	0.7
Interest on long-term debt	5.3	6.5
Total functions/program expenses	87.8	87.2
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 1.8</b>	<b>\$ (3.7)</b>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$87.8 million. Certain activities were partially funded from those who benefited from the programs (\$4.6 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$17.1 million). The School District paid for the remaining "public benefit" portion of our governmental activities with \$20.4 million in taxes, \$46.3 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.



# **Northville Public Schools**

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## **Management's Discussion and Analysis (Continued)**

The School District experienced an increase in net assets of \$1.8 million.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

### **The School District's Funds**

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$17.5 million, which is a decrease of \$16.5 million from last year. The primary reason for the decrease was the usage of funds from the 2004 building and site bonds.

In the General Fund, our principal operating fund, the fund balance decreased \$1,700,000 to \$2.8 million. The change is mainly due to a planned reduction of the fund balance, non-contractual salary exceeding expectation, and a transfer to the Building and Site Fund.

General Fund fund balance is available to fund costs related to allowable school operating purposes.

Our Special Education Center Program Fund remained stable from the prior years, showing minimal net decrease.

The 2004 Capital Projects Fund fund balance decreased as the School District continued construction related to the 2004 bond issue. The construction project is estimated to be approximately 62 percent complete at June 30, 2006.

The other nonmajor funds decreased by \$332,000. Combined, the Debt Service Funds showed a fund balance decrease of approximately \$300,000. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

# Northville Public Schools

## Management's Discussion and Analysis (Continued)

### General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before March 2006. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were several revisions made to the 2005-2006 General Fund original budget. Revenues were increase for the reimbursement expected for the increased use of special education aides. On the expense side, there were increases in special education, operations and maintenance, transportation, and benefits. These changes increased costs by \$1.3 million.

There were significant variances between the final budget and actual amounts expended in the General Fund. See Note 2 in the notes to the financial statements for further explanation of these variances.

### Capital Assets and Debt Administration

#### *Capital Assets*

As of June 30, 2006, the School District had \$110.2 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$12 million, or 12 percent, from last year.

	2006	2005
Land	\$ 3,377,000	\$ 3,377,000
Construction in progress	7,144,889	3,902,080
Buildings and building improvements	95,469,913	86,936,872
Buses and other vehicles	1,420,492	1,366,809
Furniture and equipment	2,834,994	3,039,740
Total capital assets	<u>\$ 110,247,288</u>	<u>\$ 98,622,501</u>

This year's additions of \$12 million included vehicles, technology, building renovations, and new school additions.

# Northville Public Schools

## Management's Discussion and Analysis (Continued)

### Debt

At the end of this year, the School District had \$103.2 million in bonds outstanding versus \$109.9 million in the previous year - a change of 6 percent. Those bonds consisted of the following:

	2006	2005
General obligation bonds	<u>\$ 103,215,000</u>	<u>\$ 109,910,000</u>

The School District's Moody's rating on school bond fund qualified bonds is Aa2, and the S&P rating is AA. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. The School District's outstanding qualified general obligation debt of \$103.2 million is significantly below this \$360 million statutorily imposed limit.

Other obligations include accrued vacation pay, sick leave, and "incurred but not yet reported" health care claims. We present more detailed information about our long-term liabilities in the notes to the financial statements.

### Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2006/2007 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2006 fiscal year is 25 percent of the February 2006 and 75 percent of the September 2006 student counts. The 2006/2007 budget was adopted in June 2006, based on an estimate of students that will be enrolled in September 2006. Approximately 91 percent of total General Fund revenue is from the foundation allowance. The foundation allowance is estimated to be \$210 above the 2006/2007 foundation, though the State School Aid Bill has not yet been adopted. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2006-2007 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2006-2007 budget. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the state's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. If actual state revenues are less than their estimates, reduction to the per pupil funding allowance may be necessary.

# Northville Public Schools

## Statement of Net Assets June 30, 2006

	Governmental Activities
<b>Assets</b>	
Cash and investments (Note 3)	\$ 2,871,642
Receivables - Net (Note 4)	12,344,507
Inventories	274,900
Prepaid costs	652,897
Restricted assets (Note 8)	15,018,788
Capital assets - Net (Note 5)	<u>110,247,288</u>
Total assets	141,410,022
<b>Liabilities</b>	
Accounts payable	1,592,190
Accrued payroll and other liabilities	5,480,075
Deferred revenue (Note 4)	13,450
State Aid Anticipation Note (Note 11)	7,000,000
Long-term liabilities (Note 7):	
Due within one year	6,955,000
Due in more than one year	<u>102,434,605</u>
Total liabilities	<u>123,475,320</u>
<b>Net Assets</b>	
Investment in capital assets - Net of related debt	16,060,418
Restricted:	
Debt service	729,539
Capital projects	459,196
Unrestricted	<u>685,549</u>
Total net assets	<u><u>\$ 17,934,702</u></u>

# Northville Public Schools

## Statement of Activities Year Ended June 30, 2006

	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Activities
				Net (Expense) Revenue and Changes in Net Assets
<b>Functions/Programs</b>				
Primary government - Governmental activities:				
Instruction	\$ 46,956,046	\$ 93,215	\$ 16,862,028	\$ (30,000,803)
Support services	30,124,325	-	-	(30,124,325)
Food services	2,542,340	2,077,908	217,691	(246,741)
Athletics	754,870	167,389	-	(587,481)
Community services	2,136,764	2,293,929	-	157,165
Interest on long-term debt	5,307,309	-	-	(5,307,309)
Total governmental activities	<u>\$ 87,821,654</u>	<u>\$ 4,632,441</u>	<u>\$ 17,079,719</u>	(66,109,494)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				8,422,696
Property taxes, levied for debt services				11,993,064
State aid not restricted to specific purposes				46,319,603
Interest and investment earnings				854,685
Other				<u>377,050</u>
Total general revenues				<u>67,967,098</u>
<b>Change in Net Assets</b>				1,857,604
<b>Net Assets - Beginning of year</b>				<u>16,077,098</u>
<b>Net Assets - End of year</b>				<u><b>\$ 17,934,702</b></u>

# Northville Public Schools

## Governmental Funds Balance Sheet June 30, 2006

	General Fund	Special Education Center Fund	2004 Building and Site Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and investments (Note 3)	\$ 2,210,645	\$ -	\$ 15,018,788	\$ 660,997	\$ 17,890,430
Receivables - Net	10,612,926	1,348,908	-	382,673	12,344,507
Due from other funds	1,434,696	-	-	421,016	1,855,712
Inventories	216,153	-	-	58,747	274,900
Prepaid costs	652,897	-	-	-	652,897
Total assets	<u>\$ 15,127,317</u>	<u>\$ 1,348,908</u>	<u>\$ 15,018,788</u>	<u>\$ 1,523,433</u>	<u>\$ 33,018,446</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 60,052	\$ 4,295	\$ 1,009,565	\$ 15,889	\$ 1,089,801
Accrued payroll and other liabilities	4,980,531	-	-	-	4,980,531
State Aid Anticipation Note	7,000,000	-	-	-	7,000,000
Due to other funds	268,562	1,341,428	122,485	625,626	2,358,101
Deferred revenue (Note 4)	-	-	-	13,450	13,450
Total liabilities	12,309,145	1,345,723	1,132,050	654,965	15,441,883
<b>Fund Balances</b>					
Reserved:					
Inventories and prepaids	869,050	-	-	58,747	927,797
Debt service	-	-	-	729,539	729,539
Capital projects	-	-	13,886,738	103,842	13,990,580
Unreserved - Designated for future health care costs	150,000	-	-	-	150,000
Undesignated, reported in:					
General Fund	1,799,122	-	-	-	1,799,122
Special Revenue Funds	-	3,185	-	(23,660)	(20,475)
Total fund balances	<u>2,818,172</u>	<u>3,185</u>	<u>13,886,738</u>	<u>868,468</u>	<u>17,576,563</u>
Total liabilities and fund balances	<u>\$ 15,127,317</u>	<u>\$ 1,348,908</u>	<u>\$ 15,018,788</u>	<u>\$ 1,523,433</u>	<u>\$ 33,018,446</u>

# Northville Public Schools

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## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2006

**Fund Balance - Total Governmental Funds** \$ 17,576,563

Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities  
are not financial resources and are not  
reported in the governmental funds:

Cost of capital assets	\$ 162,179,069	
Accumulated depreciation	<u>(51,931,781)</u>	110,247,288

Long-term liabilities are not due and payable in  
the current period and are not  
reported in the governmental funds:

Bonds payable including bond premium	(107,218,710)
Compensated absences/IBNR for self-insurance	(2,170,895)

Accrued interest payable is not included as a  
liability in governmental funds

(499,544)

**Net Assets - Governmental Activities** \$ 17,934,702

# Northville Public Schools

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	Special Education Center Fund	2004 Building and Site Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenue</b>					
Local sources	\$ 9,061,944	\$ -	\$ 521,948	\$ 16,696,044	\$ 26,279,936
State sources	47,747,652	3,761,731	-	62,029	51,571,412
Federal sources	1,161,310	-	-	217,691	1,379,001
Interdistrict sources	1,061,820	9,384,829	-	2,260	10,448,909
Total revenue	59,032,726	13,146,560	521,948	16,978,024	89,679,258
<b>Expenditures</b>					
Current:					
Instruction	37,701,628	-	-	-	37,701,628
Support services	22,852,535	-	-	-	22,852,535
Community services	-	-	-	2,136,764	2,136,764
Food service	-	-	-	2,429,864	2,429,864
Athletics	-	-	-	754,870	754,870
Special education:					
Instruction	-	8,240,407	-	-	8,240,407
Support services	-	3,598,812	-	-	3,598,812
Debt service:					
Principal	-	-	-	7,210,000	7,210,000
Interest	-	-	-	4,747,083	4,747,083
Other	-	-	-	538,281	538,281
Capital outlay	170,483	30,039	15,733,540	125,629	16,059,691
Total expenditures	60,724,646	11,869,258	15,733,540	17,942,491	106,269,935
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	(1,691,920)	1,277,302	(15,211,592)	(964,467)	(16,590,677)
<b>Other Financing Sources (Uses)</b>					
Proceeds from issuance of bonds	-	-	-	11,786,668	11,786,668
Payment to escrow agent	-	-	-	(11,634,760)	(11,634,760)
Transfers in	1,513,726	-	767,685	716,546	2,997,957
Transfers out	(1,484,231)	(1,277,379)	-	(236,347)	(2,997,957)
Total other financing sources (uses)	29,495	(1,277,379)	767,685	632,107	151,908
<b>Net Change in Fund Balances</b>	(1,662,425)	(77)	(14,443,907)	(332,360)	(16,438,769)
<b>Fund Balances - Beginning of year</b>	4,480,597	3,262	28,330,645	1,200,828	34,015,332
<b>Fund Balances - End of year</b>	<b>\$ 2,818,172</b>	<b>\$ 3,185</b>	<b>\$ 13,886,738</b>	<b>\$ 868,468</b>	<b>\$ 17,576,563</b>



# Northville Public Schools

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## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

**Net Change in Fund Balances - Total Governmental Funds** **\$ (16,438,769)**

Amounts reported for governmental activities in the statement  
of activities are different because:

Governmental funds report capital outlay as expenditures;  
in the statement of activities, these costs are allocated  
over their estimated useful lives as depreciation:

Depreciation expense	\$ (3,749,192)	
Capitalized capital outlay	<u>15,373,979</u>	11,624,787

Bond issuance is not reported as financing sources on the statement of activities	(11,215,000)
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Underwriter's premium reported as revenue in the governmental funds and amortized on the statement of activities	(270,170)
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Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	73,036
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	17,910,000
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Compensated absences, as well as estimated self-insured liability claims, are recorded when earned in the statement of activities. In the current year, more was paid out than was earned	<u>173,720</u>
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<b>Change in Net Assets of Governmental Activities</b>	<b><u><u>\$ 1,857,604</u></u></b>
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# Northville Public Schools

## Fiduciary Fund Statement of Fiduciary Net Assets June 30, 2006

	Trust Funds	Student Activities Agency Fund
<b>Assets</b>		
Cash and investments	\$ 236,097	\$ 183,798
Due from General Fund	<u>-</u>	<u>512,134</u>
Total assets	236,097	<u><u>\$ 695,932</u></u>
<b>Liabilities</b>		
Due to General Fund	9,745	\$ -
Due to student groups	<u>-</u>	<u>695,932</u>
Total liabilities	<u>9,745</u>	<u><u>\$ 695,932</u></u>
<b>Net Assets</b> - Reserved for scholarships	<u><u>\$ 226,352</u></u>	

# Northville Public Schools

## **Fiduciary Fund** **Statement of Changes in Fiduciary Net Assets** **Year Ended June 30, 2006**

	<u>Trust Funds</u>
<b>Additions</b>	
Interest	\$ 11,692
Contributions	10,565
<b>Deductions</b> - Scholarships awarded and other expenses	<u>20,007</u>
<b>Change in Net Assets</b>	2,250
<b>Net Assets</b> - Beginning of year	<u>224,102</u>
<b>Net Assets</b> - End of year	<u><u>\$ 226,352</u></u>

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of Northville Public Schools (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

#### **Reporting Entity**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

#### **District-wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**District-wide Financial Statements** - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

# Northville Public Schools

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## Notes to Financial Statements June 30, 2006

### **Note I - Summary of Significant Accounting Policies (Continued)**

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The School District reports the following major governmental funds:

**General Fund** - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

**Special Education Center Program Fund** - The Special Education Center Program Fund is used to record all transactions associated with special education center programs administered by the School District on behalf of the county.

**2004 Building and Site Capital Projects Fund** - The 2004 Building and Site Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The fund operates until the purpose for which it was created is accomplished.

Additionally, the School District reports the following fund types:

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Funds include food services, athletics, and the early childhood development center. Any operating deficit generated by these activities is the responsibility of the General Fund.

**Debt Service Funds** - Debt Service Funds are used to record tax, interest, other revenue for payment of interest, principal, and other expenditures on bonds outstanding.

**Student Activity (Agency) Fund** - The School District presently maintains a Student Activity Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

**Trust Funds** - The School District maintains trust funds to account for funds entrusted to the School District for scholarship award programs and various school-related purposes.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Assets, Liabilities, and Net Assets or Equity**

**Cash and Investments** - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the School District's funds is generally allocated to each fund using a weighted average of balance for the principal.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 for approximately 50 percent of the taxes that are due on September 15 and December 1 for the remainder of the property taxes that are due on February 14. The final collection date is February 28, after which they are added to the county tax rolls.

**Inventories and Prepaid Costs** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both district-wide and fund financial statements.

**Restricted Assets** - The unspent bond proceeds and related interest of the Capital Projects Funds require amounts to be set aside for construction. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

### Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

**Compensated Absences** - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**Long-term Obligations** - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data/Reclassifications** - Comparative data is not included in the School District's financial statements.

**Accounting Change** - Effective July 1, 2005, the School District will adopt the provisions of Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement will require governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital assets. In addition, the Statement requires all governments to account for insurance recoveries in the same manner. Management believes the impact of this accounting change will not be material to the basic financial statements.



# Northville Public Schools

## Notes to Financial Statements June 30, 2006

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The budget was amended during the year to account for additional revenue due to greater special education funding. Expenditures were increased due to greater general education and special education salaries, utilities, transportation salaries, and legal costs. Reductions took place in technology and curriculum salary, operations repairs, and alternative education.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. As a result, fund balance has not been reserved.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the School District incurred expenditures in the General Fund which were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund:		
Basic programs	\$ 23,404,157	\$ 23,662,805
Added needs	3,911,368	4,173,339
Pupil	2,366,776	2,469,856
Instructional staff	1,987,203	2,229,187
General administration	891,291	1,017,401
School administration	2,528,359	2,664,381
Business services	651,409	783,367
Transportation and maintenance	8,209,689	8,222,443
Central staff	303,080	403,091
Other	124,350	147,579

# Northville Public Schools

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## Notes to Financial Statements June 30, 2006

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

Basic programs exceeded budgeted amounts due to substitute teacher costs and extra duty salaries. Special education teacher assistant salaries exceeded the budget, but since these are reimbursable by the county program, there was no net effect. School administration was over budget due to copier costs and retiree payouts. General administration had added costs over budget for legal, election, and contractual benefit payment. Business services had note interest in excess of the budgeted amount. Intra-district transfers were over budget due to costs incurred in planning for additional district buildings that were not supported by the passage of a bond issue.

**Capital Projects Fund Compliance** - The 2004 Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

### **Note 3 - Deposits and Investments**

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated two banks for the deposit of its funds.

The investment policy adopted by the board in accordance with state statutes has authorized investment in bonds and securities of the United States government, bank accounts, CDs, and all other investments as noted by the state statutory authority as listed above.

### **Note 3 - Deposits and Investments (Continued)**

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$483,473 had \$383,473 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law, and by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. The School District does not have investment with custodial credit risk.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities. The School District's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

# Northville Public Schools

## Notes to Financial Statements June 30, 2006

### Note 3 - Deposits and Investments (Continued)

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

At year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 18,682,755	AAAm	S&P
Mutual fund	144,652	Not rated	

**Concentration of Credit Risk** - The School District places no limit on the amount the School District may invest in any one issuer.

**Foreign Currency Risk** - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

### Note 4 - Receivables

Receivables as of year end for the School District's individual major funds and the nonmajor funds in the aggregate are as follows:

	General Fund	Special Education Center Fund	Nonmajor and Other Funds	Total
Receivables:				
Taxes	\$ 688,855	\$ -	\$ 301,535	\$ 990,390
Accounts	12,147	-	81,138	93,285
Intergovernmental	9,911,924	1,348,908	-	11,260,832
Net receivables	<u>\$ 10,612,926</u>	<u>\$ 1,348,908</u>	<u>\$ 382,673</u>	<u>\$ 12,344,507</u>

# Northville Public Schools

## Notes to Financial Statements June 30, 2006

### Note 4 - Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Payment received prior to meeting all eligibility requirements	\$ -	\$ 13,450

### Note 5 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Capital assets not being depreciated:				
Land	\$ 3,377,000	\$ -	\$ -	\$ 3,377,000
Construction in process	3,902,080	7,144,889	(3,902,080)	7,144,889
Capital assets being depreciated:				
Building and building improvements	115,001,427	11,165,555	-	126,166,982
Buses and other vehicles	3,838,391	371,905	-	4,210,296
Furniture and equipment	20,686,192	593,710	-	21,279,902
Subtotal	139,526,010	12,131,170	-	151,657,180
Accumulated depreciation:				
Building and building improvements	28,064,555	2,632,514	-	30,697,069
Buses and other vehicles	2,471,582	318,222	-	2,789,804
Furniture and equipment	17,646,452	798,456	-	18,444,908
Subtotal	48,182,589	3,749,192	-	51,931,781
Net capital assets being depreciated	91,343,421	8,381,978	-	99,725,399
Net governmental capital assets	\$ 98,622,501	\$ 15,526,867	\$ (3,902,080)	\$ 110,247,288

# Northville Public Schools

## Notes to Financial Statements June 30, 2006

### Note 5 - Capital Assets (Continued)

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:

Instruction	\$ 449,903
Support services	3,186,813
Food services	<u>112,476</u>
Total governmental activities	<u>\$ 3,749,192</u>

**Construction Commitments** - The School District has active construction projects at year end including the 2001 and 2004 bond issues. At year end, the School District's commitment with contractors is as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
2004 bond issue	\$ 24,261,766	\$ 13,886,738

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From					Total
	General	Special Education Center Program	2004 Building and Site Fund	Trust and Agency	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 1,341,428	\$ 93,268	\$ -	\$ -	\$ 1,434,696
Trust and Agency	-	-	-	-	512,134	512,134
Nonmajor governmental funds	<u>268,562</u>	<u>-</u>	<u>29,217</u>	<u>9,745</u>	<u>113,492</u>	<u>421,016</u>
Total	<u>\$ 268,562</u>	<u>\$ 1,341,428</u>	<u>\$ 122,485</u>	<u>\$ 9,745</u>	<u>\$ 625,626</u>	<u>\$ 2,367,846</u>

# Northville Public Schools

## Notes to Financial Statements June 30, 2006

### Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund balances represent routine and temporary cash flow assistance from the General Fund until amounts are transferred from fund bank accounts.

#### Interfund Transfers

	Transfers Out			Total
	General Fund	Special Education Center	Other Governmental Funds	
Transfers in:				
General Fund	\$ -	\$ 1,277,379	\$ 236,347	\$ 1,513,726
2004 Building and Site Fund	767,685	-	-	767,685
Other governmental funds	716,546	-	-	716,546
Total	<u>\$ 1,484,231</u>	<u>\$ 1,277,379</u>	<u>\$ 236,347</u>	<u>\$ 2,997,957</u>

Transfers provided funding for special education and subsidized operations in the Athletics and Food Services Funds.

### Note 7 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds	\$ 109,910,000	\$ 11,215,000	\$ 17,910,000	\$ 103,215,000	\$ 6,955,000
Premium	3,733,540	571,668	301,498	4,003,710	-
Other obligations	2,344,615	6,731,391	6,905,111	2,170,895	-
Total governmental activities	<u>\$ 115,988,155</u>	<u>\$ 18,518,059</u>	<u>\$ 25,116,609</u>	<u>\$ 109,389,605</u>	<u>\$ 6,955,000</u>

# Northville Public Schools

## Notes to Financial Statements June 30, 2006

### Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2007	\$ 6,955,000	\$ 4,550,746	\$ 11,505,746
2008	7,170,000	4,268,394	11,438,394
2009	6,775,000	4,043,894	10,818,894
2010	6,850,000	3,820,644	10,670,644
2011	6,925,000	3,560,894	10,485,894
2012-2016	35,215,000	12,909,130	48,124,130
2017-2021	25,975,000	5,035,942	31,010,942
2022-2024	7,350,000	703,750	8,053,750
Total	<u>\$ 103,215,000</u>	<u>\$ 38,893,394</u>	<u>\$ 142,108,394</u>

### Governmental Activities

General obligation bonds consist of the following:

1997 \$66,645,000 serial and term bonds due in annual installments of \$3,750,000 to \$3,800,000 through May 1, 2018; interest at 4.55 percent to 5.35 percent	\$ 3,945,000
2001 \$4,630,000 serial and term bonds due in annual installments of \$685,000 to \$800,000 through May 1, 2008; interest at 4.00 percent to 4.25 percent	1,505,000
2001 \$27,510,000 serial and term bonds due in annual installments of \$1,250,000 to \$3,250,000 through May 1, 2021; interest at 2.90 percent to 5.375 percent	13,400,000
2004 \$34,740,000 serial and term bonds due in annual installments of \$625,000 to \$2,500,000 through May 1, 2024; interest at 2.25 percent to 5.25 percent	33,500,000
2005 \$40,550,000 serial and term bonds due in annual installments of \$3,550,000 to \$3,700,000 through May 1, 2018; interest at 2.5 percent to 5 percent	40,550,000
2005B \$11,215,000 serial and term bonds due in annual installments of \$50,000 to \$1,525,000 through May 1, 2019; interest at 3 percent to 5 percent	10,315,000
Total bonded debt	<u>\$ 103,215,000</u>



# Northville Public Schools

## Notes to Financial Statements June 30, 2006

### Note 7 - Long-term Debt (Continued)

Other governmental activities long-term obligations include the following:

Employee-compensated absences	\$ 1,641,904
Self-insurance	<u>528,991</u>
Total	<u>\$ 2,170,895</u>

**Advance and Current Refundings** - During the year, the School District issued \$11,215,000 in general obligation bonds with an average interest rate of 4.58 percent. The proceeds of these bonds were used to advance refund \$10,700,000 of outstanding 2001 bonds with an average interest rate of 5.35 percent. The net proceeds of \$11,634,760 (after payment of \$151,907 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The advance refunding reduced total debt service payments by \$735,830, which represents an economic gain of \$325,573.

### Note 8 - Restricted Assets

The balances of the restricted asset accounts are unspent bond proceeds and related interest in the amount of \$15,018,788.

### Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District participates in the Metropolitan Association for Improved School Legislation (MAISL) risk pool for claims relating to property loss, torts, and errors and omissions; the School District is partially uninsured for health and dental claims.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

# Northville Public Schools

## Notes to Financial Statements June 30, 2006

### Note 9 - Risk Management (Continued)

For risk retention situations, the School District estimates the liability for health, and dental claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the district-wide statements. Changes in the estimated liability for the past two fiscal years were as follows:

	2006	2005
Estimated liability - Beginning of year	\$ 706,186	\$ 390,989
Estimated claims incurred - Including changes in estimates	6,689,584	5,774,635
Claim payments	6,866,779	5,459,438
Estimated liability - End of year	<u>\$ 528,991</u>	<u>\$ 706,186</u>

### Note 10 - Defined Benefit Pension Plan and Postemployment Benefits

**Plan Description** - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the system at P.O. Box 30171, Lansing, MI 48909-7671.

**Funding Policy** - Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 14.87 percent and 16.34 percent of the covered payroll to the plan for the periods from July 1, 2005 through September 30, 2005 and October 1, 2005 through June 30, 2006, respectively. The School District's contributions to the MPERS plan for the years ended June 30, 2006, 2005, and 2004 were \$7,129,987 \$6,650,085, and \$5,562,986, respectively.

# **Northville Public Schools**

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## **Notes to Financial Statements June 30, 2006**

### **Note 10 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)**

**Postemployment Benefits** - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

### **Note 11 - State Aid Anticipation Note**

On August 20, 2005, Northville Public Schools borrowed \$7,000,000 in a State Aid Anticipation Note. The note bears interest at 2.92 percent and is due August 20, 2006. At June 30, 2006, Northville Public Schools has accrued interest of \$176,088 on this note.

### **Note 12 - Subsequent Events**

On August 18, 2006, Northville Public Schools borrowed \$10,000,000 in a State Aid Anticipation Note. The note is due August 20, 2007.

## **Required Supplemental Information**

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# Northville Public Schools

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Local sources	\$ 9,522,938	\$ 9,627,855	\$ 9,061,944	\$ (565,911)
State sources	46,661,224	47,119,059	47,747,652	628,593
Federal sources	39,421	911,000	1,161,310	250,310
Interdistrict sources	312,577	745,000	1,061,820	316,820
Total revenue	56,536,160	58,402,914	59,032,726	629,812
<b>Expenditures - Current</b>				
Instruction:				
Basic programs	23,587,109	23,404,157	23,662,805	258,648
Added needs	2,996,868	3,911,368	4,173,339	261,971
Employee benefits	10,249,577	10,067,588	9,865,484	(202,104)
Support services:				
Pupil	2,389,848	2,366,776	2,469,856	103,080
Instructional staff	1,762,401	1,987,203	2,229,187	241,984
General administration	866,249	891,291	1,017,401	126,110
School administration	2,494,785	2,528,359	2,664,381	136,022
Business services	642,881	651,409	783,367	131,958
Transportation and maintenance	7,362,429	8,209,689	8,222,443	12,754
Central staff	367,730	303,080	403,091	100,011
Employee benefits	4,600,000	4,937,805	4,915,230	(22,575)
Other	412,150	124,350	147,579	23,229
Capital outlay	10,400	250,000	170,483	(79,517)
Total expenditures	57,742,427	59,633,075	60,724,646	1,091,571
<b>Other Financing Sources (Uses)</b>				
Transfers in	1,765,000	1,524,200	1,513,726	(10,474)
Transfers out	(553,700)	(553,700)	(1,484,231)	(930,531)
Total other financing sources (uses)	1,211,300	970,500	29,495	(941,005)
<b>Net Change in Fund Balance</b>	5,033	(259,661)	(1,662,425)	(1,402,764)
<b>Fund Balance - July 1, 2005</b>	4,480,597	4,480,597	4,480,597	-
<b>Fund Balance - June 30, 2006</b>	<u>\$ 4,485,630</u>	<u>\$ 4,220,936</u>	<u>\$ 2,818,172</u>	<u>\$ (1,402,764)</u>

# Northville Public Schools

## Required Supplemental Information Budgetary Comparison Schedule - Special Education Center Fund Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
State sources	\$ 3,409,560	\$ 3,409,560	\$ 3,761,731	\$ 352,171
Interdistrict sources	<u>8,767,948</u>	<u>8,767,948</u>	<u>9,384,829</u>	<u>616,881</u>
Total revenue	12,177,508	12,177,508	13,146,560	969,052
<b>Expenditures</b> - Current - Special education	<u>12,177,508</u>	<u>12,177,508</u>	<u>13,146,637</u>	<u>969,129</u>
<b>Net Change in Fund Balance</b>	-	-	(77)	(77)
<b>Fund Balance</b> - July 1, 2005	<u>3,262</u>	<u>3,262</u>	<u>3,262</u>	<u>-</u>
<b>Fund Balance</b> - June 30, 2006	<u><u>\$ 3,262</u></u>	<u><u>\$ 3,262</u></u>	<u><u>\$ 3,185</u></u>	<u><u>\$ (77)</u></u>

## **Other Supplemental Information**

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# Northville Public Schools

	Special Revenue Funds			Debt Service		
			Early Childhood Development Center			
	Food Services	Athletics		1997	2001	2001-2002
<b>Assets</b>						
Cash and investments	\$ 4,980	\$ 1,504	\$ 4,460	\$ 223,405	\$ 191,853	\$ 69,740
Receivables - Net:						
Taxes	-	-	-	104,046	47,354	19,550
Accounts	80,682	-	456	-	-	-
Due from other funds	43,714	92,212	54,516	105,913	-	-
Inventories	58,747	-	-	-	-	-
Total assets	<u>\$ 188,123</u>	<u>\$ 93,716</u>	<u>\$ 59,432</u>	<u>\$ 433,364</u>	<u>\$ 239,207</u>	<u>\$ 89,290</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 15,859	\$ 30	\$ -	\$ -	\$ -	\$ -
Due to other funds	183,159	93,686	-	-	212,361	13,977
Deferred revenue	13,450	-	-	-	-	-
Total liabilities	212,468	93,716	-	-	212,361	13,977
<b>Fund Balances</b>						
Reserved - Inventories	58,747	-	-	-	-	-
Unreserved:						
Designated for capital projects	-	-	-	-	-	-
Designated for debt service	-	-	-	433,364	26,846	75,313
Undesignated, reported in Special Revenue Funds	(83,092)	-	59,432	-	-	-
Total fund balances	(24,345)	-	59,432	433,364	26,846	75,313
Total liabilities and fund balances	<u>\$ 188,123</u>	<u>\$ 93,716</u>	<u>\$ 59,432</u>	<u>\$ 433,364</u>	<u>\$ 239,207</u>	<u>\$ 89,290</u>



**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2006**

Funds	Capital Projects Fund			
2004	2005 Refunding	2005B Refunding	2001 Building and Site	Total
\$ 35,373	\$ 6,817	\$ 22,475	\$ 100,390	\$ 660,997
52,930	77,655	-	-	301,535
-	-	-	-	81,138
9,436	77,451	34,322	3,452	421,016
-	-	-	-	58,747
<b>\$ 97,739</b>	<b>\$ 161,923</b>	<b>\$ 56,797</b>	<b>\$ 103,842</b>	<b>\$ 1,523,433</b>
\$ -	\$ -	\$ -	\$ -	\$ 15,889
-	122,443	-	-	625,626
-	-	-	-	13,450
-	122,443	-	-	654,965
-	-	-	-	58,747
-	-	-	103,842	103,842
97,739	39,480	56,797	-	729,539
-	-	-	-	(23,660)
97,739	39,480	56,797	103,842	868,468
<b>\$ 97,739</b>	<b>\$ 161,923</b>	<b>\$ 56,797</b>	<b>\$ 103,842</b>	<b>\$ 1,523,433</b>

# Northville Public Schools

	Special Revenue Funds			Debt Service		
			Early Childhood Development Center			
	Food Services	Athletics		1997	2001	2001-2002
<b>Revenue</b>						
Local	\$ 2,077,908	\$ 167,389	\$ 2,293,929	\$ 4,161,294	\$ 1,894,014	\$ 788,427
State	62,029	-	-	-	-	-
Federal	217,691	-	-	-	-	-
Interdistrict	-	-	2,260	-	-	-
Total revenue	2,357,628	167,389	2,296,189	4,161,294	1,894,014	788,427
<b>Expenditures</b>						
Current:						
Community services	-	-	2,136,764	-	-	-
Food services	2,429,864	-	-	-	-	-
Athletics	-	754,870	-	-	-	-
Debt service:						
Principal	-	-	-	3,750,000	1,250,000	685,000
Interest	-	-	-	364,275	629,369	89,738
Other	-	-	-	77,601	414,484	46,196
Capital outlay	36,491	-	-	-	-	-
Total expenditures	2,466,355	754,870	2,136,764	4,191,876	2,293,853	820,934
<b>Excess of Revenue Over (Under)</b>						
<b>Expenditures</b>	(108,727)	(587,481)	159,425	(30,582)	(399,839)	(32,507)
<b>Other Financing Sources (Uses)</b>						
Proceeds from issuance of bonds	-	-	-	-	11,786,668	-
Payment to escrow agent	-	-	-	-	(11,634,760)	-
Transfers in	43,714	672,832	-	-	-	-
Transfers out	-	(85,351)	(150,996)	-	-	-
Total other financing sources (uses)	43,714	587,481	(150,996)	-	151,908	-
<b>Net Change in Fund Balances</b>	(65,013)	-	8,429	(30,582)	(247,931)	(32,507)
<b>Fund Balances - Beginning of year</b>	40,668	-	51,003	463,946	274,777	107,820
<b>Fund Balances (Deficit) -</b>						
End of year	<u>\$ (24,345)</u>	<u>\$ -</u>	<u>\$ 59,432</u>	<u>\$ 433,364</u>	<u>\$ 26,846</u>	<u>\$ 75,313</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures,**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2006**

Funds	Capital Projects Fund			
2004	2005 Refunding	2005 Refunding	2001 Building and Site	Total
\$ 2,122,212	\$ 1,802,705	\$ 1,371,648	\$ 16,518	\$ 16,696,044
-	-	-	-	62,029
-	-	-	-	217,691
-	-	-	-	2,260
2,122,212	1,802,705	1,371,648	16,518	16,978,024
-	-	-	-	2,136,764
-	-	-	-	2,429,864
-	-	-	-	754,870
625,000	-	900,000	-	7,210,000
1,485,625	1,763,225	414,851	-	4,747,083
-	-	-	-	538,281
-	-	-	89,138	125,629
2,110,625	1,763,225	1,314,851	89,138	17,942,491
11,587	39,480	56,797	(72,620)	(964,467)
-	-	-	-	11,786,668
-	-	-	-	(11,634,760)
-	-	-	-	716,546
-	-	-	-	(236,347)
-	-	-	-	632,107
11,587	39,480	56,797	(72,620)	(332,360)
86,152	-	-	176,462	1,200,828
<u>\$ 97,739</u>	<u>\$ 39,480</u>	<u>\$ 56,797</u>	<u>\$ 103,842</u>	<u>\$ 868,468</u>

# Northville Public Schools

	1997 Debt	2001 Refunding	2001
June 30	Principal	Principal	Principal
2007	\$ 3,750,000	\$ 705,000	\$ 1,475,000
2008	195,000	800,000	1,575,000
2009	-	-	1,600,000
2010	-	-	1,600,000
2011	-	-	1,600,000
2012	-	-	1,625,000
2013	-	-	675,000
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017	-	-	-
2018	-	-	-
2019	-	-	-
2020	-	-	1,625,000
2021	-	-	1,625,000
2022	-	-	-
2023	-	-	-
2024	-	-	-
2025	-	-	-
2026	-	-	-
Total	<u>\$ 3,945,000</u>	<u>\$ 1,505,000</u>	<u>\$ 13,400,000</u>
Principal payments due	May 1	May 1	May 1
Interest payments due	May 1 and November 1	May 1 and November 1	May 1 and November 1
Interest rate	4.55% to 5.35%	4.0% to 4.25%	2.9% to 5.375%
Original issue	<u>\$ 66,645,000</u>	<u>\$ 4,630,000</u>	<u>\$ 27,510,000</u>

**Other Supplemental Information**  
**Schedule of Bonded Indebtedness**  
**Year Ended June 30, 2006**

<u>2004</u>	<u>2005 Refunding</u>	<u>2005B Refunding</u>
<u>Principal</u>	<u>Principal</u>	<u>Principal</u>
\$ 975,000	\$ -	\$ 50,000
1,000,000	3,550,000	50,000
1,425,000	3,700,000	50,000
1,500,000	3,700,000	50,000
1,575,000	3,700,000	50,000
1,650,000	3,700,000	50,000
1,725,000	3,700,000	890,000
1,775,000	3,700,000	1,500,000
1,850,000	3,700,000	1,525,000
1,925,000	3,700,000	1,525,000
2,000,000	3,700,000	1,525,000
2,075,000	3,700,000	1,525,000
2,150,000	-	1,525,000
2,225,000	-	-
2,300,000	-	-
2,375,000	-	-
2,475,000	-	-
2,500,000	-	-
-	-	-
-	-	-
-	-	-
<b><u>\$ 33,500,000</u></b>	<b><u>\$ 40,550,000</u></b>	<b><u>\$ 10,315,000</u></b>
May 1	May 1	May 1
May 1 and November 1	May 1 and November 1	May 1 and November 1
2.25% to 5.25%	2.5% to 5%	3% to 5%
<b><u>\$ 34,740,000</u></b>	<b><u>\$ 40,550,000</u></b>	<b><u>\$ 11,215,000</u></b>

# **Northville Public Schools**

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**Federal Awards  
Supplemental Information  
June 30, 2006**

# Northville Public Schools

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## Independent Auditor's Report

To the Board of Education  
Northville Public Schools

We have audited the financial statements that collectively comprise Northville Public Schools' basic financial statements for the year ended June 30, 2006 and have issued our report thereon dated July 28, 2006. Those basic financial statements are the responsibility of the management of Northville Public Schools. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Northville Public Schools taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

July 28, 2006



A worldwide association of independent accounting firms



**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

To the Board of Education  
Northville Public Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northville Public Schools as of and for the year ended June 30, 2006, which collectively comprise Northville Public Schools' basic financial statements, and have issued our report thereon dated July 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Northville Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Northville Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Education  
Northville Public Schools

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

July 28, 2006

**Report on Compliance with Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

To the Board of Education  
Northville Public Schools

**Compliance**

We have audited the compliance of Northville Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The major federal programs of Northville Public Schools are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Northville Public Schools' management. Our responsibility is to express an opinion on Northville Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northville Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Northville Public Schools' compliance with those requirements.

In our opinion, Northville Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

To the Board of Education  
Northville Public Schools

### **Internal Control Over Compliance**

The management of Northville Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Northville Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

July 28, 2006

# Northville Public Schools

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures
Clusters:			
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education - National School Lunch Program:	10.555		
2005-06		\$ 142,651	\$ -
2004-05		<u>125,593</u>	<u>125,593</u>
Total Child Nutrition Cluster		268,244	125,593
Special Education Cluster - U.S. Department of Education - Passed through the Wayne County ISD:	84.027		
IDEA:			
Flowthrough Project - FY 06 Funding		555,350	-
Flowthrough Project Carryover - FY 05 Funding		18,542	-
Flowthrough Project - FY 05 Funding		524,280	524,280
WCCP Flowthrough Project - FY 06 Funding		352,350	-
WCCP Flowthrough Project - FY 05 Funding		299,831	299,831
Professional Development- FY 05 Funding		6,000	6,000
Transition Services- FY 06 Funding		5,000	-
Transition Services - FY 05 Funding		<u>8,413</u>	<u>8,413</u>
Total IDEA		1,769,766	838,524
Preschool Incentive:	84.173		
FY 06 Funding		54,694	-
FY 05 Funding		<u>59,421</u>	<u>59,421</u>
Total Preschool Incentive		<u>114,115</u>	<u>59,421</u>
Total Special Education Cluster		1,883,881	897,945
Other Federal Awards:			
U.S. Department of Education:			
Passed through the Michigan Department of Education:			
Title V-Part A - Project Number 060250 0506	84.298	2,715	-
Title II-Part A:	84.367		
Project Number 060520 0506		110,390	-
Project Number 050520 0405		<u>110,194</u>	<u>96,088</u>
Total Title II-Part A		220,584	96,088

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2006

Accrued Revenue at July 1, 2005	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2006
\$ - 22,643	\$ - -	\$ 115,884 22,643	\$ 142,651 -	\$ 26,767 -
22,643	-	138,527	142,651	26,767
-	-	499,815	555,350	55,535
-	-	18,542	18,542	-
35,740	-	35,740	-	-
-	-	317,115	352,350	35,235
29,983	-	29,983	-	-
6,000	-	6,000	-	-
-	-	-	5,000	5,000
4,207	-	4,207	-	-
75,930	-	911,402	931,242	95,770
-	-	49,225	54,694	5,469
5,942	-	5,942	-	-
5,942	-	55,167	54,694	5,469
81,872	-	966,569	985,936	101,239
-	-	2,715	2,715	-
-	-	59,981	84,460	24,479
935	-	15,041	14,106	-
935	-	75,022	98,566	24,479

# Northville Public Schools

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures
Other Federal Awards (Continued):			
U.S. Department of Education (Continued):			
Passed through the Michigan Department of Education (Continued):			
Safe and Drug-free Schools and Communities - Project number 062860 0506	84.186	\$ 17,999	\$ -
Title III - English Language Acquisition - Project Number 060580 0506	84.365	22,942	-
Hurricane Katrina Relief FY 06 - Project Number 064120	84.938C	669	-
Total U.S. Department of Education noncluster programs - Passed through the Michigan Department of Education		264,909	96,088
Passed through Wayne County ISD - Medicaid Transportation	93.778	11,533	-
Michigan State Police - Homeland Security Grant Part II	97.004	14,565	-
U.S. Department of Justice - COPS 2005 Secure Our Schools - Grant # 2005CKWX0559	16.710	257,482	-
U.S. Department of Agriculture - Passed through the Michigan Department of Education - Food Distribution:	10.550		
Entitlement commodities - 2005-06		74,860	-
Bonus commodities - 2005-06		180	-
Total U.S. Department of Agriculture noncluster programs		75,040	-
Total federal awards		<u>\$ 2,775,654</u>	<u>\$ 1,119,626</u>

**Schedule of Expenditures of Federal Awards (Continued)**  
**Year Ended June 30, 2006**

Accrued Revenue at July 1, 2005	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2006
\$ -	\$ -	\$ 17,999	\$ 17,999	\$ -
-	-	6,055	19,957	13,902
-	-	669	669	-
935	-	102,460	139,906	38,381
-	-	11,533	11,533	-
-	-	14,565	14,565	-
-	-	-	9,370	9,370
-	-	74,860	74,860	-
-	-	180	180	-
-	-	75,040	75,040	-
<b>\$ 105,450</b>	<b>\$ -</b>	<b>\$ 1,308,694</b>	<b>\$ 1,379,001</b>	<b>\$ 175,757</b>



# **Northville Public Schools**

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## **Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2006**

### **Note 1 - Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Northville Public Schools and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### **Note 2 - Noncash Assistance**

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

**Commodities** - Inventory values are based on USDA value for donated food commodities (per Food Scoop). Reported commodity receipt values were computed using the recipient entitlement balance report and other records. Spoilage or pilferage, if any, is included in expenditures.

### **Note 3 - Grant Section Auditor's Report**

Management has utilized Form R-7120 in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

# Northville Public Schools

## Schedule of Findings and Questioned Costs Year Ended June 30, 2006

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes   X   No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
	Special Education Cluster:
84.027	IDEA
84.173	Preschool Incentive

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

# **Northville Public Schools**

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## **Schedule of Findings and Questioned Costs (Continued)** **Year Ended June 30, 2006**

### **Section II - Financial Statement Audit Findings**

None

### **Section III - Federal Program Audit Findings**

None



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July 28, 2006

Board of Education  
Northville Public Schools  
501 West Main Street  
Northville, MI 48167

Dear Board Members:

We recently completed our audit of the basic financial statements of Northville Public Schools for the year ended June 30, 2006. As a result of our audit, we have the following comments and recommendations for your review and consideration.

#### **FIXED ASSETS**

During our review of the fixed asset lapse schedules, we noted a difference of approximately \$120,000. While this difference is immaterial to the government wide statement, a reconciliation should be completed to ensure the detailed listing of fixed assets agrees to the recorded amounts.

#### **COST MONITORING FOR BONDS**

Under the school code the district is responsible for monitoring costs charged to its bonded capital projects. Because of the unique nature of a capital project, the District may receive citizen inquiries.

Citizens within the District have the legal authority to review expenditures of bond proceeds. They can also request that the Michigan Department of Treasury review expenditures for compliance with bond requirements. We are aware of instances where the Department of Treasury has disallowed expenditures after conducting a citizen requested review. We recommend that the District carefully monitor expenditures of bond proceeds for compliance with bond requirements and consult Board Counsel when the appropriateness of a bond expenditure is unclear.

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**State Audits of TIFA, DDA's, and LDFA's**

The State of Michigan recently conducted audits of school district taxes captured by TIFA, DDA, and LDFA taxing authorities compared to state records. The audits have revealed that many differences exist between the amounts actually captured by the authorities and the amounts which have been reported to the state. This has resulted in many districts receiving claims for repayment of state-aid over-payments back to the State of Michigan. These findings illustrate the necessity of local districts that are impacted by TIFA's, DDA's, or LDFA's to perform independent reconciliations of their property tax revenue and related state-aid payments.

**Uniform Budgeting & Accounting Act**

Over 25 years ago, the State enacted P.A. 621-The Uniform Budgeting & Accounting Act. This act requires, among other things, that budgets be adopted for the general fund and special revenue funds. In addition, the act requires that Budgets be amended during the year if actual expenditures will exceed the amount budgeted. The penalty for failure to comply with this act can be recovery of the "unauthorized" expenditures from district board members and administrators.

Recently the Department of Education announced a program to monitor District compliance with P.A. 621. The Department will review the annual audited financial statements and identify any district or public school academy whose **total** expenditures exceed their **final amended budget** by more than 1%. In addition the same test will be applied to other financing sources (uses). If your district receives a violation notice from the Department of Education in the future you will have two weeks to provide the Department with information regarding the districts' procedures to detect and prevent violations of the act. The Department will then decide, based on your response, on the appropriateness of referring the violation to the Attorney General's office for further consideration.

Obviously as you go forward it is strongly advised that the board and administration review the district's policies and procedures in this area in order to prevent violations. We should note that enforcement could become even more stringent if the Department were to adopt the same violation criteria for revenues-something they are considering. The key factor in all this new enforcement effort is an emphasis on the board's responsibility to approve all expenditures via the budget process and avoid any deficit fund balance.

**New Auditing Pronouncements**

**Statement on Auditing Standards 103 - Audit Documentation:** In December 2005, American Institute of Certified Public Accountants (AICPA) Audit Standards Board issued a new Statement on Auditing Standards (SAS), which superseded SAS 96. The effective date is for the June 30, 2007 audit.

This standard clarifies and increases the requirements that auditors must follow in obtaining, managing and retaining documentation that supports the audit opinion. It prescribes the form, content and extent of audit documentation necessary to support the audit work. It also redefines the method used to determine the dating of the auditors report and creates a "lock down" date for the audit file.

The substantive implication of this new standard is that it is likely that auditors will be more specific in their requests for information from the School District and will require the District to be well prepared for audit prior to the start of the year end field work. The only practical way to insure a timely audit process is for the district to continue to analyze and adjust the books and records throughout the year as it is impossible to "catch up" at year end. Care must be taken to continue to devote adequate resources to this important function.

**Statement on Auditing Standards 112 - Communication of Internal Control Related Matters**  
**Noted in an Audit:** During May 2006, the American Institute of Certified Public Accountants (AICPA) Audit Standards Board issued a new Statement on Auditing Standards (SAS), which superseded SAS 60. The effective date is for the June 30, 2007 audit.

This standard establishes requirements and provides guidance to enhance the auditor's communication responsibility to the Audit Committee, if one exists, or the Board of Education concerning significant deficiencies and material weaknesses in internal control noted in a financial statement audit. The standard defines Internal control deficiency, significant deficiency (this term replaces and therefore eliminates the term reportable condition), and material weakness. Internal control deficiencies that constitute significant deficiencies and material weaknesses will be reported to the Audit Committee or the Board of Education in writing and will be made no later than 60 days following the release date of the auditor's report on the financial statements.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The substantive implication of this new standard is that it is likely that auditors will be required to officially report on more internal control related items than in the past. This is because the new audit standard lowers the threshold that is used to determine if a control deficiency must be officially reported. **Because of this increased emphasis, it will become even more important for the district to pay close attention to policies and procedures, particularly in the area of compliance with Federal grants.**

**Statement on Auditing Standards 104 to 111- The Risk Assessment Standards:** The AICPA issued Statements on Auditing Standards (SAS 104 – SAS 111) that will substantially affect the auditing process. The effective date for School District audits will be for the audit of the financial statements for the year ending June 30, 2008. The ramifications for the audit process are substantial. At this point, the specific impact of these standards on our school district auditing process is being evaluated and we will continue to keep you apprised of the status.

Board Members  
Northville Public Schools

July 28, 2006  
Page 4

**Government Auditing Standards exposure draft (2006 revision):** The Government Accountability Office (GAO) is finalizing its revisions to Government Auditing Standards (the Yellow book). These revisions will be issued before the end of 2006. All School Districts in Michigan are required to be audited under the Yellow Book requirements in addition to the audit standards issued by the Auditing Standards Board. These Yellow Book changes will be effective for the June 30, 2007 School District audits. The planned changes are substantive and will impact audit approach, audit documentation and audit reporting. Some likely impacts of the changes include:

- Likely increased number of findings reported in the single audit report due to a lowered threshold of what must be reported
- Incorporation of audit documentation requirements similar to SAS 103
- Increased evaluation of compliance with auditor independence requirements
- Increased expectation of governments to maintain and prepare their financial information for audit

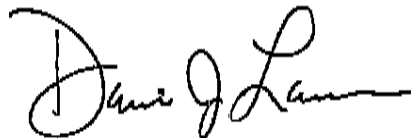
Once the changes are final, we will provide the School District with specific information on how the changes will affect the audit process.

As always, only time will tell how these differences are resolved. In addition, there remains the continuing possibility of prorations if the School Aid Fund revenue should fall short of projections.

We would like to thank Mr. John Street, his supporting staff, as well as others within the School District for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

**PLANTE & MORAN, PLLC**



Dennis J. Lesnau